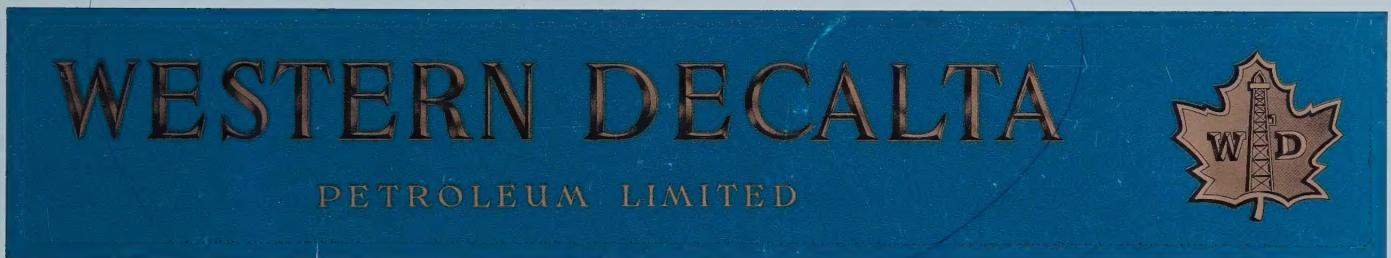


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Annual Report 1966

DIRECTORS

ALAN T. CHRISTIE
Scarsdale, New York

J. M. COYNE, Q.C.
Ottawa, Ontario

CHARLES B. FORGAN
London, England

H. B. GRIFFITH
Montreal, Quebec

RALPH C. C. HENSON
Toronto, Ontario

N. K. KINKEAD-WEEKES
London, England

CHARLES S. LEE
Calgary, Alberta

F. R. MATTHEWS, Q.C.
Calgary, Alberta

T. MUIR WARDEN, O.B.E.
London, England

A. H. ROSS
Calgary, Alberta

OFFICERS

CHARLES S. LEE
President

A. H. ROSS
Vice-President and General Manager

L. G. ELHATTON
Secretary-Treasurer

CORPORATE

REGISTRAR AND TRANSFER AGENTS
FOR SHARES

Crown Trust Company—
Calgary, Toronto, Montreal, Vancouver

REGISTRAR AND TRANSFER AGENTS
FOR DEBENTURES

Guaranty Trust Company of Canada—
Calgary, Toronto, Montreal, Vancouver

FISCAL AGENTS

Pitfield, Mackay & Company Ltd.—
Montreal, Quebec

BANKERS

The Royal Bank of Canada—Calgary, Alberta

AUDITORS

Clarkson, Gordon & Co.—Calgary, Alberta

SOLICITORS

Messrs. MacKimmie, Matthews, Wood,
Phillips and Smith—Calgary, Alberta

SHARES LISTED

Toronto and Calgary Stock Exchanges

SUBSIDIARY COMPANIES

Albermont Petroleum Incorporated

Decalta Oil Developments Ltd.

Freehold Gas & Oil Ltd.

Merchants Oil Co. Ltd.

New Brunswick Oilfields, Limited

South Brazeau Petroleum Limited

The Petrol Oil & Gas Company, Limited

ANNUAL MEETING

The next Annual General Meeting of the Shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario on April 27th, 1967 at 10:30 a.m. A formal notice of the meeting, together with a form of proxy is enclosed with this report.

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IN THIS REPORT

All figures and interest shown for "Decalta" or "the Company", unless otherwise stated, represent the consolidated total of Decalta and its subsidiaries for the year 1966.



SUMMARY OF THE YEAR 1966

FINANCIAL

	1966	1965
Gross income	\$ 4,156,000	\$ 3,760,000
Cash flow	2,403,000	2,254,000
Per share35	.33
Net income for the year	709,000	822,000
Per share10	.12
Working capital	365,000	2,481,000
Exploration and development expenditures .	4,349,000	4,142,000
Long term debt	\$ 9,723,000	\$ 9,731,000

OPERATING

Oil and condensate production—		
net barrels	1,445,000	1,244,000
Natural gas sales—mcf	1,242,000	1,363,000
Net acreage—acres	8,579,000	6,654,000
Proven and probable additional reserves		
Oil and condensate—gross barrels . . .	34,103,000	31,514,000
Residue natural gas—gross mcf . . .	98,200,000	103,200,000
Sulphur—long tons	305,000	322,000

TO THE SHAREHOLDERS



CHARLES S. LEE
PRESIDENT

The Company's production, gross revenue, cash flow, crude oil reserves and land portfolio reached record levels in 1966. It was also a year of significant growth for the oil producing industry of Western Canada as a major oil producing area in northern Alberta developed.

Decalta Expands Land Position

The discoveries of large oil reserves in the Muskeg-Keg River formation in northern Alberta had their effect upon the investment policies of your Company. When Muskeg-Keg River oil was discovered at Rainbow Lake in 1965, Decalta had approximately 7,000 acres in the area. Your Company has since established a substantial land position, firstly, in the general area, and, secondly, closer to the focal point of the discoveries. Part of the acreage thus established was reported last year and this has been added to since that time. By the end of 1966, your company held varying interests averaging 72% in 3,122,000 permit or reservation acres along trends of the Rainbow type formations. These interests, extending from Norman Wells in the Northwest Territories through northern Alberta and Saskatchewan, are located on the map on page 6.

The strong land position in Saskatchewan was established because if a discovery of the Rainbow Lake type were made in Saskatchewan then the oil from such a discovery would find immediate markets and to a degree pre-empt crude oil delivered from Alberta. These acquisitions are also shown on the map on page 6.

Having established an exploratory land position as cheaply as possible, the Company has subsequently concentrated its attention upon acquiring properties closer to the discoveries. To this end the Company has participated in some 1,000 miles of seismic exploration.

The Company has taken land positions along the Mississippian and Upper Devonian trends in southeast Saskatchewan and North Dakota. A discovery in these formations at Hummingbird, Saskatchewan, has created new interest in the deeper horizons in this area. A 5% interest was also acquired in over 2,600,000 acres at the south end of Hudson Bay near the Manitoba-Ontario border. These and other developments are described in more detail on pages 7 and 8 and are shown on the accompanying map.

As advised in progress reports, the results of the third Obed well were disappointing. For further details specific reference is made to the comments on page 7.

Oil Production Up 16.1%

The Company's production of crude oil and condensate reached a new high in 1966. Production totalled 1,445,000 net barrels or a daily average of 3,959 barrels, up 16.1% over 1965.

New wells in Alberta, British Columbia and especially in Montana contributed to the volume gains and offset the lower allowables from the Pembina Field in Alberta and the natural decline in older fields.

Financial

Gross Income for 1966 totalled \$4,156,000, up 10.5% from last year while cash generated from operations amounted to \$2,403,000 (35.2c per share), a 6.6% increase. Net Income amounted to \$709,000 (10.4c per share) in 1966 compared with \$822,000 (12.1c per share) in 1965. The reduction in Net Income is attributable to an increase in depreciation and depletion.

The Company's expenditures for finding and developing reserves of crude oil and natural gas were \$4,349,000 (\$4,142,000 in 1965). The emphasis during 1966 was upon the acquisition of exploratory acreage rather than high-priced semi-proven acreage.

Oil Reserves Increase

Crude oil reserves, including condensate, amounted to 34,103,000 gross barrels at January 1, 1967; this is an increase of 2,589,000 barrels over last year after allowing for 1,683,000 gross barrels produced during 1966. The Company's reserves of natural gas at January 1, 1967 totalled 98.2 billion cubic feet (103.2 billion on the same date last year).

Industry Growth Requires New Markets

During 1966, Canadian production of crude oil and other liquid hydrocarbons averaged 1,009,000 barrels daily, up 9.4% from 1965 while the sale of natural gas rose by 9% to some 2.9 billion cubic feet per day. Industry predictions for 1967 include a 7%-8% increase in crude oil production and a 10% gain in natural gas sales.

During the six year period from 1961 to 1966 reserves of crude oil and natural gas liquids have increased 114% from 4.2 to 8.8 billion barrels, after allowing for production of 1.8 billion barrels during this period. This rapid increase in reserves has led to fresh studies being made to develop additional markets for Canadian oil.

The growth in our markets for both crude oil and natural gas since the implementation of the National Oil Policy in 1961 has been encouraging, but the Western Canadian industry continues to produce at only approximately 50% of its capacity, and substantial discoveries now being made will reduce this figure unless new markets are found.

Canada imports about 570,000 barrels per day. This is partly offset by exports to the U.S.A. of about 380,000 barrels per day. The difference represents a severe drain on the Canadian balance of merchandise trade. This can be corrected in one of two ways; increasing the consumption of Canadian crude

in Canada, or increasing the exports to the U.S.A.; the first method may ultimately have to be adopted if the second method is unsuccessful. The most accessible markets are in the U.S. Mid-West, where there is a rather rapidly growing deficit in the supply of crude oil. This is an area where Canadian crude can be delivered competitively in the right quantity, the right quality and at the right price, provided that the construction of pipeline facilities is pursued with dispatch. These facilities should be constructed to a destination and of a size sufficient to provide flexibility to enter either the Mid-West or Ontario or, if need be, into the Montreal area. Canada has the reserves, the markets exist and a great contribution can be made towards the reduction of the balance of merchandise trade, as well as to industrial prosperity, if the political difficulties can be overcome.

The Year Ahead

In the year ahead, your Company will be giving greater attention towards the development of the large tracts of acreage, which have been acquired during 1965 and 1966, and the extension of these acreage holdings closer to the area of current development in the general area of Rainbow Lake - Zama Lake - Bistcho Lake in northern Alberta.

The Company plans to institute and to participate with others in at least ten additional secondary recovery programs in Alberta and Montana during 1967. These projects should increase revenues at modest cost.

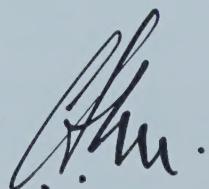
Expenditure for finding and developing production is expected to be \$2,500,000 to \$3,000,000. Seismic exploration work is being done in northern Alberta preparatory to the drilling of at least 4 or 5 wells. Evaluation work is also being done in northeast British Columbia and Saskatchewan before drilling the Company's properties in these areas.

Directors and Employees

During the year Mr. P. R. Payn, who has been a director for the last fifteen years, asked to retire and his resignation was accepted with much regret. His place has been taken by Mr. N. K. Kinkead-Weekes, of London, England.

The pressures created by the rapid development of new areas and ever increasing numbers of provincial and federal land auctions has thrown a heavy burden on our staff. These burdens have been undertaken with enthusiasm and efficiency and I wish to convey the Company's sincere appreciation for a job well done.

March 15, 1967



President

GENERAL REVIEW

EXPLORATION & DEVELOPMENT

Drilling Activity Remains High

During the year Western Decalta and its subsidiaries participated in the drilling of 74 wells, the same number as in 1965. It will be noted however, in the table lower right, that in 1966 net wells totalled 30.7 vs. 24.3 in 1965 for an average well participation of 42% and 33% respectively.

In 1966, the success ratios of net well completions were 86.1% for development and field extension wells and 15.9% for exploratory wells. The corresponding ratios in 1965 were 64.5% and 11.6% respectively.

Development

Of the 59 development and field extension wells, 47 resulted in oil producers, 2 in gas wells and 10 in dry holes. Decalta's interest was equivalent to 26.9 net wells. Geographically, 28 wells were drilled in Alberta, mostly in the Mitsue and Pembina fields; 15 in the State of Montana; 8 in British Columbia; 7 in Saskatchewan and 1 in New Brunswick.

Exploration

The 15 exploratory wells, in which Decalta participated to the extent of 3.8 net wells, were geographically distributed to Alberta (7), Saskatchewan (5), Montana (2) and British Columbia (1). This drilling resulted in two discoveries in Saskatchewan. The first, a heavy oil discovery at Battle Creek, which appears to be of modest proportions but has not yet been fully evaluated; Decalta owns a 50% interest in a 52,480 acre permit in the area. The second, at Gull Lake was a discovery in the Shaunavon sand formation; two additional wells have been drilled on the 640 acre block, of which Decalta owns 50% in 2 wells and a 10% overriding royalty in the other.

Outlays for exploring for and developing crude oil and natural gas reserves during 1966 totalled \$4,349,000, up 5% from the previous year. A 5-year summary of such expenditures is shown below.

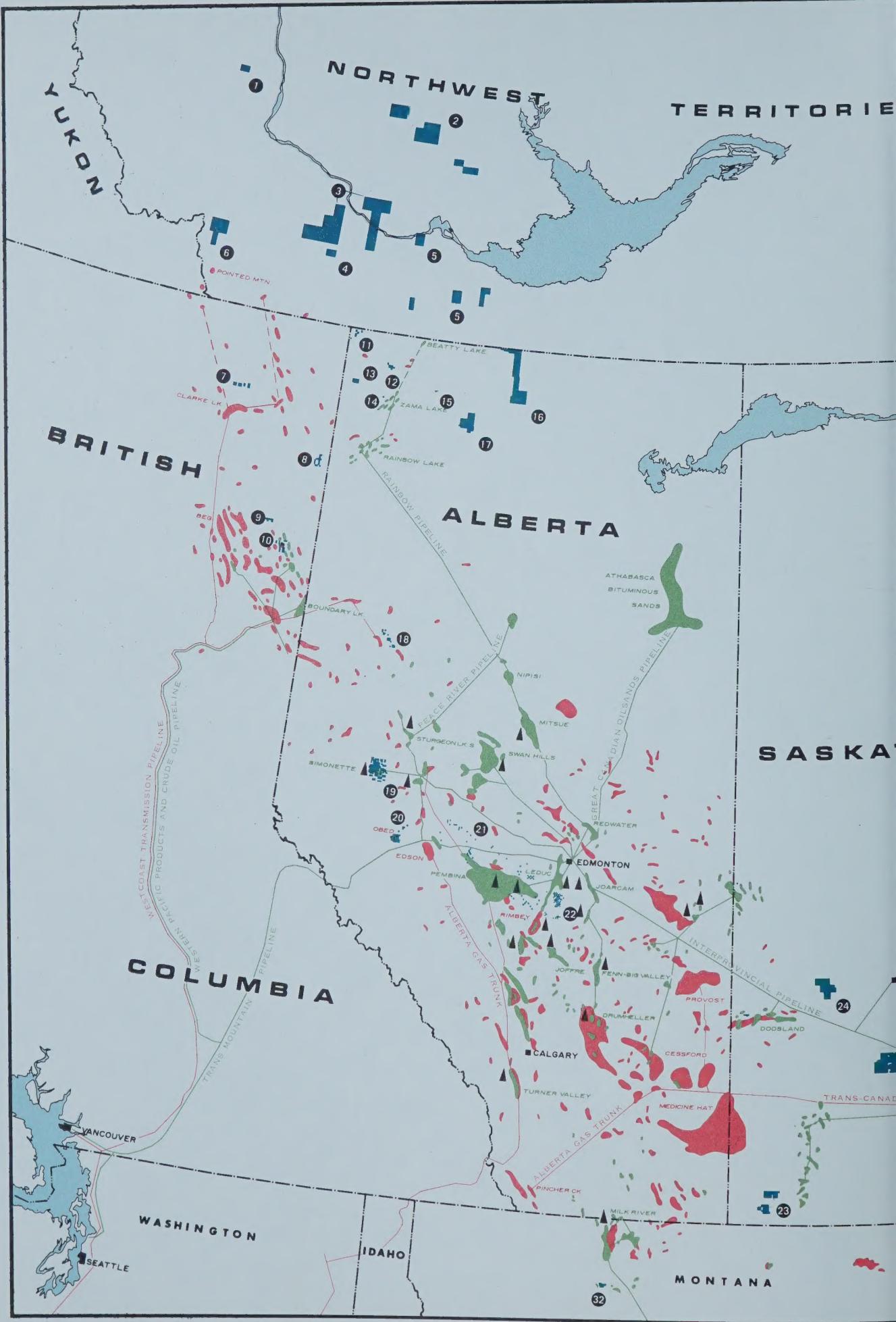
EXPENDITURES FOR FINDING AND DEVELOPING PRODUCTION

(In Thousands of Dollars)

	1966	1965	1964	1963	1962
Land and Rents	\$1,470	2,197	1,998	559	375
Geological and Geophysical	459	235	206	180	209
Non-Productive Drilling	355	427	200	296	94
Productive Drilling	1,678	999	788	956	129
Production Equipment	387	284	295	417	255
	\$4,349	4,142	3,487	2,408	1,062

WELLS DRILLED

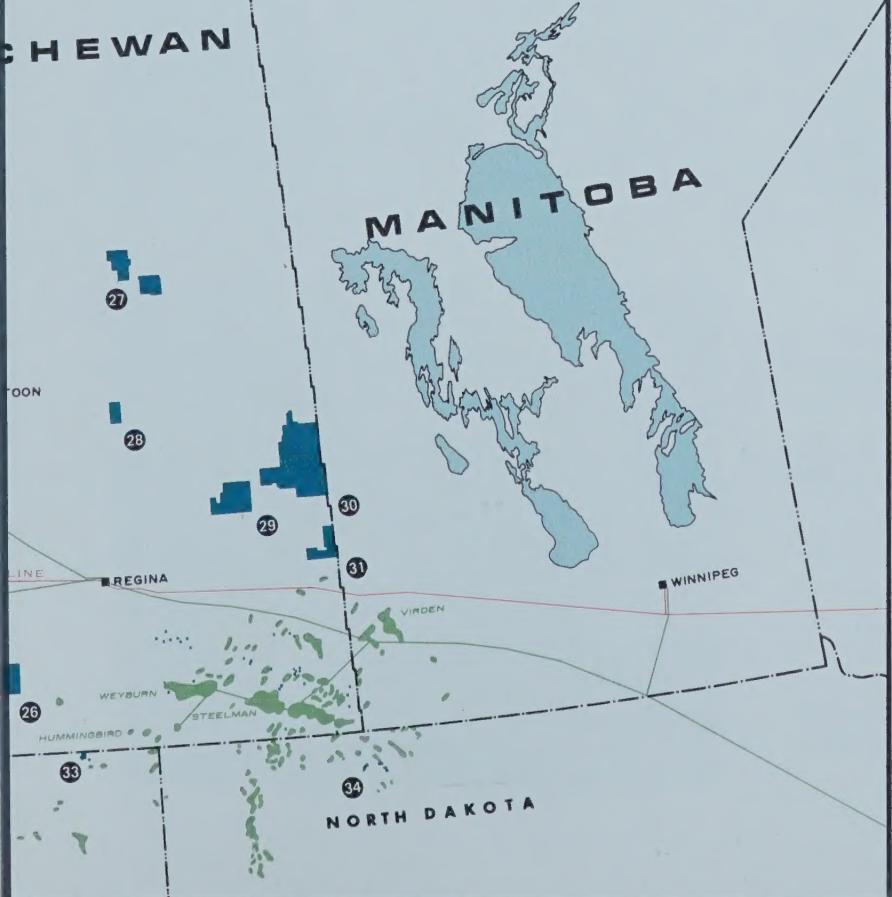
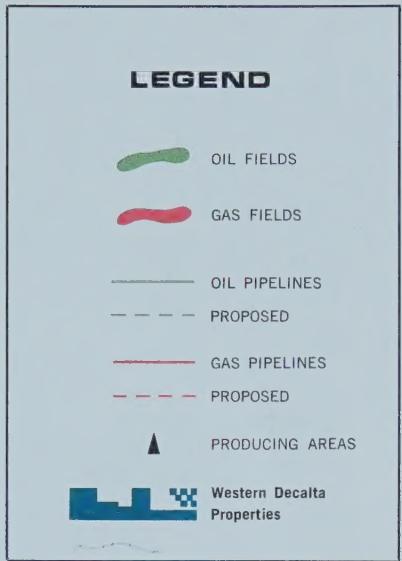
	Gross Wells 1966	Gross Wells 1965	Net Wells 1966	Net Wells 1965
Development:				
Oil	47	38	22.8	10.7
Gas	2	2	.4	1.2
Dry	10	16	3.7	6.6
	59	56	26.9	18.5
Exploration:				
Oil	2	1	.6	.2
Gas	—	1	—	.5
Dry	13	16	3.2	5.1
	15	18	3.8	5.8
Total Wells	74	74	30.7	24.3



MAJOR ACREAGE HOLDINGS

WESTERN CANADA

WESTERN DECALTA PETROLEUM LIMITED



MAJOR ACREAGE HOLDINGS

AREA	GROSS ACRES	NET ACRES	
1. Root River	29,119	29,119	R
2. Horn River	442,142	221,071	R
3. Cormack Lake	799,776	692,854	R
4. Cormack Lake	31,162	15,581	R
5. Mills Lake	218,861	218,861	R
6. Pointed Mountain	155,772	155,772	R
7. Fort Nelson	20,000	3,750	L
8. Beaverskin	13,467	672	D.R.
9. Bircley Creek	6,208	668	D.R.
10. Big Arrow	22,582	4,774	L
11. Bistcho Lake North	11,200	5,920	L
12. Bistcho Lake South	8,320	288	D.R.
13. Shekilie	50,560	576	R
14. Zama Lake	320	64	L
15. Meander	960	219	L
16. Wood Buffalo	234,240	117,120	R
17. Caribou	97,280	48,640	L
18. Brownvale	10,156	1,156	L
19. Simonette	3,840	952	L
20. Obed	44,063	8,443	L
21. Cyn-Pem	24,937	11,806	L
22. Ferrybank	32,259	7,633	L
23. Cypress Hills	75,840	37,920	R & L
24. Biggar	100,000	100,000	R
25. Grainland	100,000	100,000	R
26. Assiniboia	99,297	24,824	R
27. Prince Albert	172,800	40,932	R
28. Quill Lake	41,120	41,120	R
29. Melville	100,000	100,000	R
30. Big Boggy	431,824	277,143	R
31. Rocanville	50,800	50,800	R
32. County Line Prospect	3,320	1,660	L
33. Beaver Creek	6,924	1,731	L
34. North Dakota	5,105	5,105	L

L - Lease

D.R. - Drilling Reservation

R - Crown Permit or Reservation, convertible into Leases to the extent of approximately 50%

PRODUCTION

Oil production gains 16.1% — while gas deliveries decline 8.9%.

Crude Oil and Condensate

The Company's net crude oil and condensate production totalled 1,445,000 barrels during 1966, an increase of 16.1% over 1965. Daily net production averaged 3,959 barrels in 1966 (3,408 in 1965).

Factors accounting for the increase in 1966 oil production were as follows:

In Alberta—production from new wells completed in 1966 and a full year's production from wells completed during 1965 contributed 133,000 net barrels. A production increase of 11,000 barrels was also achieved from properties showing favorable response to water injection. These gains were in part offset by lower allowables due to proration changes mainly in the Pembina Cardium field (-30,000 barrels) and through natural decline of the older wells.

In British Columbia—the increase of 15,000 barrels originated from new wells in the Weasel field.

In Montana—the development of relatively shallow oil pools immediately south of the U.S.-Alberta border provided the Company's major net gain for 1966, totalling 125,000 barrels.

An analysis of the Company's 1966 production by fields appears on page 16. The average price received during 1966 was \$2.51 per barrel compared to \$2.53 last year. The decrease is mainly attributable to greater volumes of heavier crudes in Alberta and the larger volumes from British Columbia where the wellhead prices are lower than the Company average.

Secondary Recovery

At the year end, the Company was participating in over 27 secondary recovery projects located in Canada and the United States. During 1967, at least another 10 gas or water injection projects will be instituted. These projects are designed to improve the current rates of production and the ultimate recovery of oil from the reservoirs.

Natural Gas

Net sales of natural gas during 1966 amounted to 1,242,000 MCF, down 8.9% from last year, reflecting reduced pipeline demand. Gilby, Rimbev and Turner Valley fields in Alberta and the Stoney Creek field in New Brunswick provided the major sources of gas production.

RESERVES

*Crude Oil Reserves Advance 8.2%
Natural Gas Reserves off 5.1%*

A summary of Decalta's reserves at January 1, 1967 is presented below with comparative figures for the previous year. With the exception of minor oil reserves in Texas, the estimates have been calculated by an independent consultant.

Proven and Probable Additional	January 1	
	1967	1966
Crude Oil Reserves (gross barrels)	34,103,000	31,514,000
Residue Natural Gas (gross mcf)	98,200,000	103,200,000
Sulphur (gross long tons)	305,000	322,000

Crude Oil and Condensate

Crude oil reserves, including condensate, totalled 34,103,000 gross barrels on January 1, 1967, an increase of 2,589,000 barrels over last year. This overall gain was obtained after making allowance for minority interests in our subsidiary companies and the production of 1,683,000 gross barrels during 1966. The results reflect chiefly the development of properties in the Mitsue field in Alberta and in northern Montana. Other additions were realized from properties in the Baxter Lake, Pembina-Breton and Simonette areas of Alberta; in the Weasel and Peejay fields in British Columbia and in various fields in Saskatchewan.

Natural Gas and Sulphur

Residue natural gas reserves at January 1, 1967 were calculated at 98,200,000 gross mcf. (103,200,000 mcf. last year). Additional reservoir information obtained during the year from certain fields, particularly Obed, indicated that a downward adjustment of natural gas reserves was warranted until further development takes place. These same factors resulted in a reduction of the sulphur reserves.

IMITED

R
ES

19	R
71	R
54	R
81	R
61	R
72	R
50	L
72	D.R.
68	D.R.
74	L
20	L
88	D.R.
76	R
64	L
19	L
20	R
40	L
56	L
52	L
43	L
06	L
33	L
20	R & L
00	R
00	R
24	R
32	R
20	R
00	R
43	R
00	R
60	L
31	L
05	L

invertible into
imately 50%

AREAS OF MAJOR INTEREST

Most of the properties referred to in this section are located on the map to the left.

LAND

LAND SUMMARY			
Area	Gross Acreage	Net Acreage	
Alberta	907,000	423,000	
British Columbia	83,000	29,000	
Hudson Bay	2,695,000	135,000	
New Brunswick	5,453,000	5,453,000	
Northwest Territories	1,976,000	1,648,000	
Ontario	43,000	43,000	
Saskatchewan	1,303,000	837,000	
United States	19,000	11,000	
	12,479,000	8,579,000	

The Company's land portfolio has been increased substantially this year. Much of the exploration, geological and geophysical work of the Company has been directed toward this end. This program which began in 1965 of building up a considerable land position in the Muskeg-Keg River prospective areas of northern Alberta and the Northwest Territories was continued in 1966. The program was expanded to include areas in Saskatchewan, where formations of like character and age are known to exist, although, so far, commercial oil has not been discovered.

The tabulation above shows the location and amount of the gross and net acreage held by the Company at December 31, 1966.

The total acreage acquired during the year was 5,644,000 gross acres (2,190,000 net acres). This compared with 832,000 gross acres (741,000 net acres) acquired in 1965. Representative wildcat lands were acquired in northern Alberta, the Northwest Territories and North Obed. Other areas of interest were Mitsue, Baxter Lake, Milk River and Pembina in Alberta; Coleville-Smiley, Big Boggy, Biggar in Saskatchewan; Bircley Creek, Beaverskin in British Columbia; Beaver Creek in Montana and Glenburn, Mound Rose in North Dakota.

The Muskeg-Keg River Play

The discoveries in the Rainbow Lake area and northward to Zama Lake in the Muskeg - Keg River formations have continued to dominate the exploration scene this year. Lands have been acquired either by way of private purchase, Crown purchase or "farmout" in North Zama Lake, South Bistcho Lake, Meander River, Caribou Mountain, Wood Buffalo Park in

Alberta; Beaverskin in British Columbia; and Pointed Mountain, Trout Lake, Mills Lake, Horn River in the Northwest Territories. These acquisitions are located from 7½ miles to 250 miles from current production. Most immediate interests are in North Zama, Bistcho and Meander, where at least 8 wildcat wells are programmed for 1967 (3 have been drilled and abandoned at the time of writing). Apart from actual discoveries there is widespread evidence of the presence of petroleum in these areas, and there has been a steady increase in the value of acreage during the year. It is of interest to note that a large gas discovery has been made by another company some 17 miles from the Pointed Mountain acreage.

Obed

The encouraging prospects in Obed fully reported last year and in subsequent progress reports have not been completely realized. The third well was a disappointment inasmuch as an unusually thick occurrence of D3 reservoir was encountered but was filled with salt water and gas. The D2 reservoir was much thinner than in the previous two wells; a modest sweet wet gas discovery was made in the Blairmore (Cretaceous) beds. Discussions are continuing with a view to further development.

Hondo-Mitsue

Eleven wells were drilled in this field by the Company and its partners. All but one were completed as producing wells. An additional 2,080 gross acres (964 net acres) were acquired by way of purchase and farmout. The Company now has an interest in 8,000 acres (2,018 net acres). It is expected four or five more wells will be drilled in 1967 and additional acreage will be acquired. The development of these properties has provided substantial oil reserves for the Company.

Milk River, Alberta and Montana

The Moulton Sand of Cretaceous age is the main target in this area. Of the 18 wells in which the Company has participated this year, 14 have been completed as oilwells; 4 have been dry holes. Water flooding has commenced in one of the 7 pools in which your Company has an interest. Results are expected in October, 1967, from this flood. Water flooding will be instituted in 4 other pools in 1967.

Weasel

The follow-up drilling from the three wells which were reported last year was not successful. In the end a total of 8 wells were drilled; these resulted in 3 oil wells, 1 gas well and 4 dry holes. The production from the 3 oil wells has been rewarding while the gas well has been capped pending market developments. Since the end of 1966 a further oil discovery has been made, adjoining our property which has opened up locations in the block of acreage immediately north in which Decalta has 20% interest.

Pembina-Breton

Six additional development wells were drilled in this general area during the year, all six were completed as producers. Negotiations are underway on a proposed water flood.

New Brunswick

The water flood experiment which has been conducted over the past eighteen months gave some indications of affecting neighbouring wells, as a result it was decided to make a thorough investigation of the possibilities of a general water flood of the Stoney Creek Field. Accordingly, for the first time a rotary rig was moved in and cores taken in the producing horizon. These are being studied in

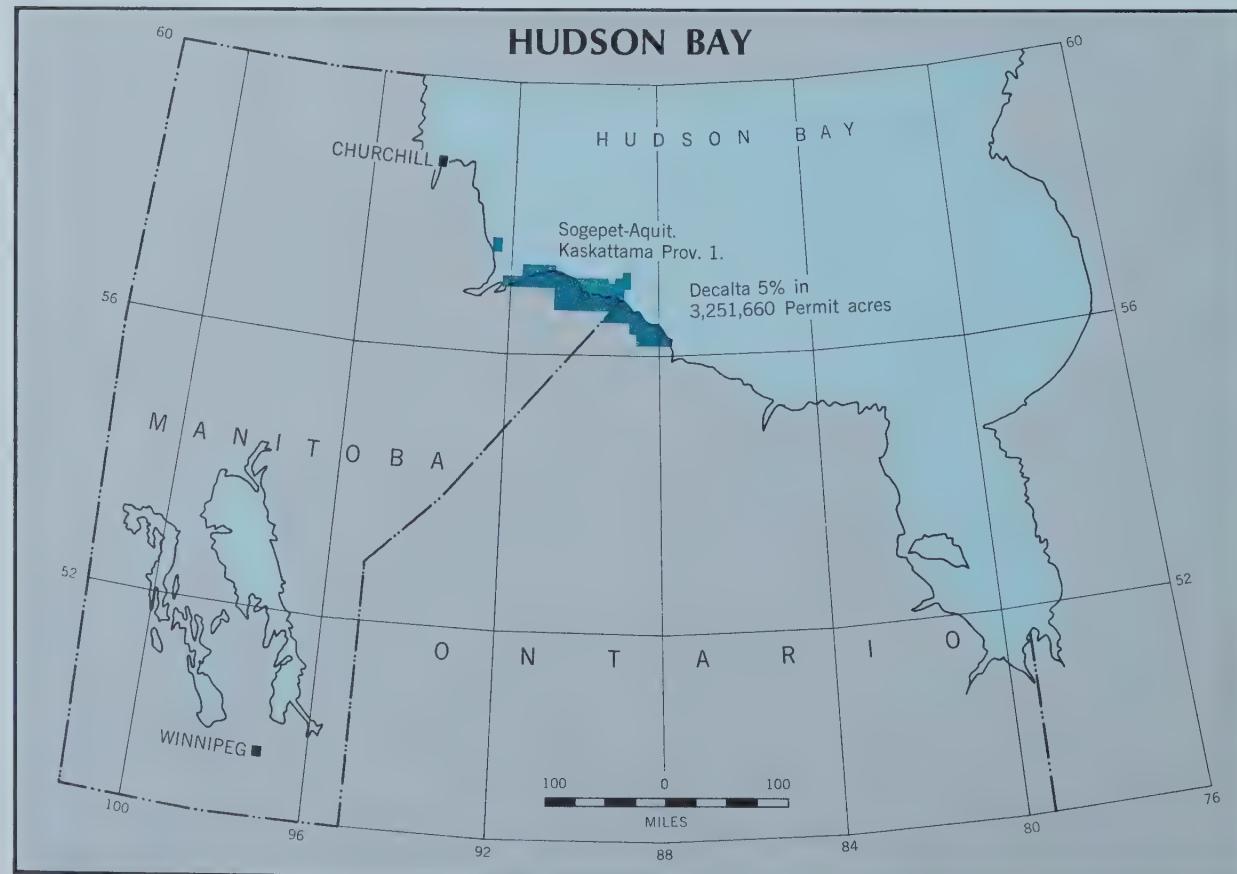
detail for the purpose of deciding whether or not a full scale water flood operation should be undertaken.

Meander River

In the search for geological conditions similar to those which occur in the Rainbow Lake area, the Company and its partners conducted a detailed seismic survey in the Meander River area and purchased a section and a half of land, where the seismic showed anomalous conditions. The Company has drilled one dry hole in the area. However, acreage in this area has since been purchased by other companies at high prices indicating further exploration is to be done which will help evaluate our lands.

Hudson Bay

At the year end, the Company held a 5% interest in 2,695,000 permit acres and a drilling well in the sedimentary basin which is being explored at the south end of Hudson Bay. Drilling operations have been suspended for the winter and will be resumed in early spring. A program of seismic work is also contemplated. Since the year end, Decalta has increased its land holdings in the area so that it now holds a 5% interest in 3,252,000 permit acres as shown on the accompanying map.



FINANCIAL

Revenues

Gross Income for 1966 totalled \$4,156,000, up \$396,000 or 10.5% from 1965. It will be noted from the tabulation below that Net Oil Sales rose by \$482,000 (15.3%). Increased oil production accounted for a dollar value gain of \$508,000 which was partially offset by a lower average wellhead price amounting to \$26,000. Natural Gas Sales were \$331,000 (\$364,000 in 1965). There was a reduced off-take from the fields in which the Company has its wells. Interest and Other Income was \$110,000 (\$155,000 in 1965).

ANALYSIS OF GROSS INCOME

	1966	Change from 1965	
		Amount	%
Net Oil Sales	\$3,631,000	+\$482,000	+15.3
Net Gas Sales	331,000	— 33,000	— 9.1
Royalty Revenue	84,000	— 8,000	— 8.7
Net Oil and Gas Sales .	4,046,000	+ 441,000	+12.2
Interest and Other Income	110,000	— 45,000	—29.0
Gross Income	\$4,156,000	+\$396,000	+10.5

Expenses

Total cash expenses were \$1,753,000 in 1966, up 16.4% over 1965. Production expenses increased 10.9% to \$957,000 due to new wells added; the unit cost per net barrel was 5% lower than last year. Interest expense was higher by \$79,000 reflecting a full year's charge on the long term debt issued in mid-1965. General and administrative expenses, net of management fees earned, amounted to \$188,000 in 1966 compared with \$115,000 last year. The increase is attributable to a rise in administrative costs of 8.8% and 9.7% decline in management fees earned.

Net Income

Decalta's net income for 1966 amounted to \$709,000 compared to \$822,000 for 1965. It should be noted that this reduction in net income is accounted for by an increase in depreciation and depletion.

Cash Flow

Cash Flow from operations totalled \$2,403,000 (35.2c per share), an increase of \$149,000 (6.6%) over the previous year.

DECALTA'S INTERESTS IN SUBSIDIARIES

COMPANIES	DECALTA'S INTEREST	INCORPORATED UNDER THE LAWS OF	AREAS OF OPERATIONS
ALBERMONT PETROLEUMS INCORPORATED	100.0%	Montana	Montana and Texas
DECALTA OIL DEVELOPMENTS LTD.	100.0%	Canada	Western Canada
DECALTA OIL ENTERPRISES, INC.	100.0%	Montana	Montana and Western Canada
FREEHOLD GAS & OIL LTD.	70.6%	British Columbia	Western Canada
MERCHANTS OIL CO. LTD.	100.0%	Alberta	Alberta
NEW BRUNSWICK OILFIELDS, LIMITED	82.0%	New Brunswick	New Brunswick and Western Canada
SOUTH BRAZEAU PETROLEUMS LIMITED	62.5%	Alberta	Alberta
THE PETROL OIL & GAS COMPANY, LIMITED	50.1%	Ontario	Ontario and Western Canada
THE PETROL OIL & GAS CORPORATION	*	Delaware	Texas and Oklahoma
PETROL MINERAL ENTERPRISES LTD.	*	Alberta	Alberta

All of Western Decalta's subsidiary companies are engaged in oil and gas exploration and production in the areas designated. The last two companies listed above are wholly-owned subsidiaries of The Petrol Oil & Gas Company, Limited.*



CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED
DECEMBER 31

	1966	1965
Net oil and gas sales	\$ 4,045,795	\$ 3,605,350
Interest and other income	109,747	154,676
	<hr/>	<hr/>
	4,155,542	3,760,026
Deduct:		
Production expenses	956,969	862,578
General and administrative expenses net of management fees earned	187,905	114,548
Interest expense	607,607	529,162
	<hr/>	<hr/>
Cash flow from operations	2,403,061	2,253,738
Depreciation and depletion	1,609,478	1,339,285
	<hr/>	<hr/>
Income for the year before minority interest	793,583	914,453
Income applicable to minority interest	84,988	92,684
	<hr/>	<hr/>
Net income for the year (Note 6)	\$ 708,595	\$ 821,769
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED
DECEMBER 31

	1966	1965
Source of Funds:		
Cash flow from operations	\$ 2,403,061	\$ 2,253,738
Issue of capital stock	66,250	88,100
Issue of 6% Sinking Fund Debentures Series A	—	7,047,303
Increase in production bank loans	500,000	—
	<hr/>	<hr/>
	2,969,311	9,389,141
Application of Funds:		
Additions to property and equipment	4,434,466	4,187,331
Investment in shares of subsidiary companies	2,476	1,473
Repayment of production bank loans	—	1,800,000
Repayment of notes and debentures	502,248	1,398,172
Other	146,775	29,018
	<hr/>	<hr/>
Increase or (decrease) in working capital	5,085,965	7,415,994
	<hr/>	<hr/>
	\$ (2,116,654)	\$ 1,973,147
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.



CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT:

	AS AT DECEMBER 31	
	1966	1965
Cash	\$ 464,296	\$ 369,331
Short term investments at cost which approximates market	86,984	1,713,650
Accounts receivable	1,607,934	1,460,666
Inventory of materials at cost	161,211	187,231
Prepaid expenses	9,934	9,715
	<hr/>	<hr/>
	2,330,359	3,740,593
REFUNDABLE DEPOSITS	<hr/>	<hr/>
	166,587	48,598
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of \$11,956,123 (1965—\$10,964,151)	20,165,358	17,586,664
Plant and equipment less accumulated depreciation of \$3,289,483 (1965—\$3,164,011)	1,800,313	1,555,513
	<hr/>	<hr/>
	21,965,671	19,142,177
OTHER:		
Sundry investments at cost	57,946	29,160
	<hr/>	<hr/>
	\$24,520,563	\$22,960,528
	<hr/>	<hr/>

LIABILITIES

CURRENT:

Banker's acceptances—secured	\$ 300,000	\$ —
Accounts payable and accrued charges	1,528,460	1,221,790
Accrued interest on long term debt	37,250	37,500
Current maturities of long term debt	100,000	—
	<hr/>	<hr/>
LONG TERM DEBT (Note 3)	1,965,710	1,259,290
MINORITY INTEREST IN SUBSIDIARY COMPANIES	9,723,397	9,731,255
	<hr/>	<hr/>
1,613,395	1,532,377	
	<hr/>	<hr/>

SHAREHOLDERS' EQUITY (Note 4):

Capital (Note 5) —		
Authorized—10,000,000 shares of \$1 each par value		
Issued — 6,828,183 shares (1965— 6,767,683 shares)	6,828,183	6,767,683
Contributed surplus (see statement page 12)	3,994,172	3,988,422
Earned surplus (deficit) (see statement page 12)	395,706	(318,499)
	<hr/>	<hr/>
	11,218,061	10,437,606
	<hr/>	<hr/>

On behalf of the Board:


John H. Thompson

Director.


A. J. Thompson

Director.

See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF EARNED SURPLUS

FOR THE YEARS ENDED
DECEMBER 31

	1966	1965
Deficit at beginning of year	\$ (318,499)	\$ (644,674)
Net income for the year	708,595	821,769
Discount (premium) on debentures or notes purchased for cancellation	5,610	(42,897)
Expenses and underwriting commission on issue of 6% Sinking Fund Debentures Series A	—	(452,697)
Earned surplus (deficit) at end of year	<u>\$ 395,706</u>	<u>\$ (318,499)</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

FOR THE YEARS ENDED
DECEMBER 31

	1966	1965
Balance at beginning of year	\$3,988,422	\$3,773,652
Add premium on shares issued during year	5,750	214,770
Balance at end of year	<u>\$3,994,172</u>	<u>\$3,988,422</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1966

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries.

The excess or deficiency of the cost of shares of subsidiaries over the net book value of the related assets at dates of acquisition is included in oil and gas properties or credited to accumulated depletion of oil and gas properties as the case may be.

2. ACCOUNTING PRACTICE

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

3. LONG TERM DEBT

	1966	1965
Production bank loans	\$ 500,000	\$ —
6 3/4% Secured Production Loan Bonds due March 1, 1978	1,873,397	2,231,255
6% Sinking Fund Debentures Series A due June 1, 1985	7,450,000	7,500,000
Deduct:		
Sinking fund instalments on Series A Debentures due within one year	100,000	—
Per balance sheet	<u>\$9,723,397</u>	<u>\$9,731,255</u>

The production bank loans and the 6 3/4% Production Loan Bonds are secured by an assignment of the Company's interest in certain oil and gas producing properties and are repayable out of the proceeds of production from such properties. The 6% Sinking Fund Debentures Series A are secured by a first floating charge on the undertaking, property and assets of the Company and are subject to the establishment of a sinking fund of \$200,000 in 1968, \$250,000 in 1969 and thereafter annual amounts of \$400,000 until 1984.

4. DIVIDENDS

The trust deed securing the 6% Sinking Fund Debentures Series A contains provisions restricting the payment of cash dividends, the most restrictive of which limits such payments to Consolidated Net Earnings (as defined) in excess of 3 1/2 times interest on the Company's long term debt.

5. CAPITAL AND RESERVATION OF SHARES

60,500 shares of the Company's capital stock were issued during the year for a cash consideration of \$66,250 upon the exercise of employee stock options. Of this amount, \$60,500 was credited to share capital account and the balance to contributed surplus

608,500 shares of the Company's capital stock were reserved at December 31, 1966 as follows:

233,500 shares for exercise of options granted to officers (119,000 shares) and employees at prices varying from \$1 to \$3 and exercisable from time to time on a cumulative basis and expiring from 1967 to 1972;

375,000 shares for exercise of share purchase warrants exercisable at \$4.75 per share on or before June 1, 1970.

6. INCOME TAXES

Under Canadian income tax law, exploration and development expenditures including property acquisition costs may be deducted from income or, if such expenditures exceed the income for the year, the excess may be carried forward to subsequent years. No provision for taxes on income was required for the year ended December 31, 1966 and at that date an excess of such expenditures (approximately \$8,000,000) was available to be carried forward against future taxable income.

7. STATUTORY INFORMATION

Included in charges against income during the 1966 year are the following:

Directors' fees	\$ 1,600
Directors' remuneration as officers	67,640
Interest on funded debt	588,433
Depreciation and depletion—	
Depreciation of plant and equipment	\$ 389,479
Depletion of oil and gas properties	<u>1,219,999</u>
	\$1,609,478

AUDITORS' REPORT

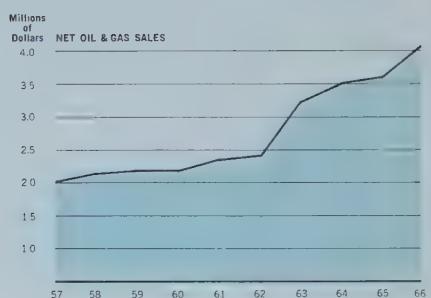
To the Shareholders of
WESTERN DECALTA PETROLEUM LIMITED

We have examined the consolidated balance sheet of Western Decalta Petroleum Limited and its subsidiary companies as at December 31, 1966 and the consolidated statements of income, earned surplus, contributed surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and the consolidated statements of income, earned surplus, contributed surplus and source and application of funds present fairly the financial position of Western Decalta Petroleum Limited and its subsidiary companies at December 31, 1966, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
March 10, 1967.

CLARKSON, GORDON & CO.
Chartered Accountants.



FINANCIAL

10 YEAR REVIEW

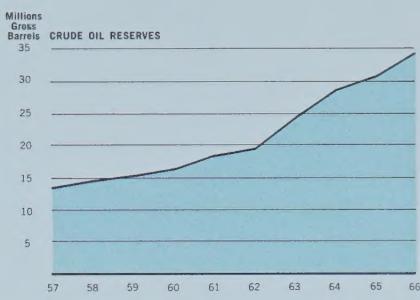
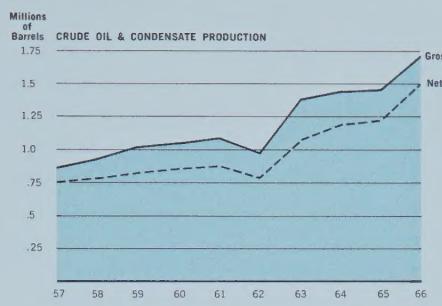
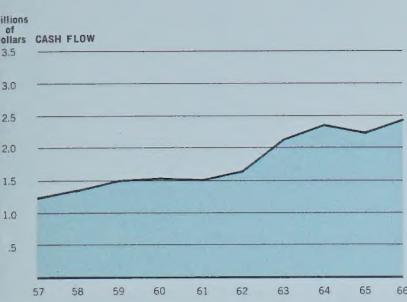
	1966	1965
Net oil and gas sales	\$ 4,046,000	\$ 3,605,000
Gross income	4,156,000	3,760,000
Production, administration and interest expenses	1,753,000	1,506,000
Cash flow	2,403,000	2,254,000
Net income (loss) (2)	709,000	822,000
Exploration expenditures	1,760,000	1,392,000
Development expenditures	2,589,000	2,750,000
Total—Exploration and Development	4,349,000	4,142,000
Working capital	365,000	2,481,000
Long term debt	9,723,000	9,731,000
Shareholders' equity	11,218,000	10,438,000
Shares outstanding	6,828,183	6,767,683
Number of shareholders	4,934	4,702

OPERATING

Oil and Condensate Production		
Gross barrels	1,683,000	1,446,000
Net barrels	1,445,000	1,244,000
Natural Gas Production		
Gross mcf	1,429,000	1,566,000
Net mcf	1,242,000	1,363,000
Drilling Activity		
Gross wells completed	74.0	74.0
Net wells completed	30.7	24.3
Net productive wells	23.8	12.6
Net dry holes	6.9	11.7
Wells Capable of Production		
Net wells	310	285
Reserves (3)		
Oil—gross barrels	34,103,000	31,514,000
Gas—gross mcf	98,200,000	103,200,000
Sulphur—long tons	305,000	322,000
Land Holdings		
Gross acres	12,479,000	7,072,000
Net acres	8,579,000	6,654,000
Number of Employees	68	71

(1) The above statistics are for Western Decalta Petroleum Limited and its subsidiary companies at December 31.

(2) Full-cost method of accounting for exploration and development expenditures was adopted in 1964.



1964	1963	1962	1961	1960	1959	1958	1957
3,538,000	\$ 3,268,000	\$ 2,400,000	\$ 2,325,000	\$ 2,194,000	\$ 2,179,000	\$ 2,134,000	\$ 2,044,000
3,653,000	3,381,000	2,487,000	2,383,000	2,291,000	2,225,000	2,186,000	2,099,000
1,274,000	1,244,000	897,000	860,000	725,000	701,000	827,000	853,000
2,379,000	2,137,000	1,590,000	1,523,000	1,566,000	1,524,000	1,359,000	1,246,000
898,000	227,000	145,000	(74,000)	(289,000)	(404,000)	(377,000)	(200,000)
811,000	919,000	480,000	407,000	488,000	693,000	733,000	809,000
2,676,000	1,489,000	582,000	374,000	1,181,000	1,036,000	1,362,000	1,433,000
3,487,000	2,408,000	1,062,000	781,000	1,669,000	1,729,000	2,095,000	2,242,000
508,000	949,000	819,000	387,000	491,000	586,000	1,254,000	1,387,000
5,730,000	4,914,000	4,381,000	2,979,000	3,881,000	3,895,000	4,432,000	7,499,000
9,711,000	8,796,000	8,565,000	8,413,000	8,459,000	8,580,000	8,949,000	5,651,000
6,581,603	6,569,603	6,569,603	6,569,603	6,569,603	6,453,758	6,445,739	4,239,190
4,144	3,993	4,145	4,188	4,433	4,414	4,345	4,003
1,440,000	1,362,000	997,000	1,091,000	1,049,000	1,015,000	932,000	862,000
1,213,000	1,122,000	825,000	897,000	874,000	870,000	802,000	765,000
1,557,000	1,225,000	915,000	502,000				
1,358,000	1,062,000	817,000	460,000				
35.0	45.0	15.0	14.0	18.0	26.0	39.0	29.0
17.0	18.3	4.4	3.5	5.6	12.3	14.5	7.8
12.2	10.9	2.0	.6	2.6	9.5	12.5	6.6
4.8	7.4	2.4	2.9	3.0	2.8	2.0	1.2
272	238	194	133	120	112	98	86
28,628,000	24,176,000	18,956,000	18,300,000	16,500,000	15,708,000	14,975,000	13,600,000
55,800,000	61,500,000	58,500,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
7,440,000	7,596,000	7,579,000	2,544,000	3,192,000	2,978,000	2,630,000	1,184,000
7,129,000	7,166,000	7,216,000	1,424,000	1,651,000	1,261,000	953,000	438,000
71	69	71	60	63	66	54	47

(3) Includes proven and probable additional reserves, excluding minority interests in subsidiary companies.
Reserves, with exception of Texas properties, have been calculated by an independent consultant.



NET OIL & GAS SALES - 1966

	Net Oil & Condensate Production	%	Average Price p/bbl.	Oil & Condensate Sales	Natural Gas Sales	Royalty Income	Net Oil & Gas Sales
(Thousands of barrels)							
(Thousands of dollars)							
CANADA:							
Alberta-							
Baxter Lake	11	0.8	\$ 1.44	\$ 16	\$ —	\$—	\$ 16
Drumheller	161	11.1	2.58	416	—	1	417
Fenn	17	1.2	2.33	40	—	—	40
Gilby	7	0.5	2.62	18	30	1	49
Joarcam	37	2.5	2.59	97	—	—	97
Joffre	10	0.7	2.67	27	—	4	31
Kaybob	11	0.8	2.52	27	—	—	27
Leduc	44	3.0	2.74	121	3	1	125
Malmo	14	1.0	2.71	37	—	—	37
Milk River	23	1.6	2.21	51	—	—	51
Mitsue	91	6.3	2.65	241	—	—	241
Pembina (Cardium) . . .	285	19.7	2.54	725	15	—	740
Pembina (Belly River) . . .	70	5.0	2.55	176	—	—	176
Rimbey	33	2.3	2.81	92	145	30	267
Simonette	57	3.9	2.69	154	—	—	154
Sturgeon Lake	143	9.9	2.49	355	9	—	364
Swan Hills	24	1.7	2.69	65	—	—	65
Turner Valley	57	3.9	2.60	148	16	4	168
Wainwright	19	1.3	1.69	31	—	1	32
Other	18	1.1	2.39	44	6	35	85
	1,132	78.3	\$ 2.55	\$2,881	\$224	\$77	\$3,182
British Columbia	35	2.4	2.08	74	—	—	74
New Brunswick	1	0.1	2.04	2	84	—	86
Ontario	—	—	—	—	22	—	22
Saskatchewan	79	5.5	2.09	164	—	2	166
	1,247	86.3	—	3,121	330	79	3,530
U.S.A.							
Louisiana	—	—	—	—	—	5	5
Montana	160	11.1	2.47	395	—	—	395
Texas	38	2.6	3.01	115	1	—	116
Total 1966	1,445	100.0	\$ 2.51	\$3,631	\$331	\$84	\$4,046
Total 1965	1,244	100.0	2.53	3,149	364	92	3,605
Increase (Decrease)	201	—	\$ (0.02)	\$ 482	\$ (33)	\$ (8)	\$ 441

THE PETROL OIL & GAS COMPANY LIMITED
 (No personal liability)
 AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

ASSETS

	AS AT DECEMBER 31	
	1966	1965
CURRENT:		
Cash	\$ 90,700	\$ 40,203
Accounts receivable	33,982	22,263
Due from affiliated company	120,000	150,000
Prepaid expense	626	626
	245,308	213,092
REFUNDABLE DEPOSITS	1,469	1,562
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depreciation of \$1,602,503 (1965 - \$1,533,679)	2,789,940	2,510,192
Plant and equipment less accumulated depreciation of \$646,411 (1965 - \$604,217)	299,176	295,746
	3,089,116	2,805,938
OTHER:		
Sundry investments at cost	796	796
	\$3,336,689	\$3,021,388

LIABILITIES

	AS AT DECEMBER 31	
	1966	1965
CURRENT:		
Accounts payable and accrued charges	\$ 16,142	\$ 13,054
Due to parent company	13,253	6,557
	29,395	19,611
NOTES PAYABLE TO PARENT COMPANY DUE MARCH 31, 1968	575,000	425,000
SHAREHOLDERS' EQUITY:		
Capital—		
Authorized—8,000,000 shares of no par value	2,743,500	2,743,500
Issued —3,995,000 shares	11,206	166,723
Deficit (Statement page 8)	2,732,294	2,576,777

On behalf of the Board:

Director.

\$3,336,689 **\$3,021,388**

See accompanying notes to consolidated financial statements.

Auditors' Report

TO THE SHAREHOLDERS OF
 THE PETROL OIL & GAS COMPANY, LIMITED

We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited and its subsidiary companies as at December 31, 1966 and the consolidated statements of income, deficit and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income, deficit and source and application of funds present fairly the financial position of The Petrol Oil & Gas Company, Limited and its subsidiary companies at December 31, 1966 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta,
 March 10, 1967.

CLARKSON, GORDON & CO.
 Chartered Accountants.

THE PETROL
 OIL & GAS COMPANY LIMITED

THE PETROL
 OIL & GAS COMPANY LIMITED

Consolidated Statement of Income

	FOR THE YEARS ENDED DECEMBER 31	
	1966	1965
Net oil and gas sales	\$562,355	\$527,525
Interest and other income	8,381	6,392
	570,736	533,917
Deduct:		
Production expenses	166,152	158,903
General and administrative expenses	40,379	38,373
Interest expense	29,513	14,971
	236,044	212,247
Cash flow from operations	334,692	321,670
Depreciation and depletion	179,175	176,529
Net income on operations	155,517	145,141
Gain on sale of securities	—	22,148
Net income for the year (See notes)	\$155,517	\$167,289

Consolidated Statement of Deficit

	FOR THE YEARS ENDED DECEMBER 31	
	1966	1965
Balance of deficit at beginning of year	\$166,723	\$334,012
Net income for the year	155,517	167,289
Balance of deficit at end of year	\$ 11,206	\$166,723

See accompanying notes to consolidated financial statements.

Consolidated Statement of Source and Application of Funds

	FOR THE YEARS ENDED DECEMBER 31	
	1966	1965
Source of Funds:		
Cash flow from operations	\$334,692	\$321,670
Gain on sale of securities	—	22,148
Loan from parent company	150,000	425,000
Other	93	(218)
	484,785	768,600

Application of Funds:

Additions to property and equipment	462,353	725,403
Increase in working capital	\$ 22,432	\$ 43,197

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

DECEMBER 31, 1966

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The accounts of a subsidiary company operating in the United States are, for purposes of consolidation, included on the basis of \$1 U.S. equals \$1 Canadian. Net assets so converted amounted to \$245,489 U.S.

2. ACCOUNTING PRACTICE

The Companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

3. INCOME TAXES

Under Canadian income tax law, exploration and development expenditures including property acquisition costs may be deducted from income or, if such expenditures exceed the income for the year, the excess may be carried forward to subsequent years. No provision for income taxes was required for the year ended December 31, 1966 and at that date an excess of such expenditures (approximately \$1,650,000) was available to be carried forward against future taxable income.

